The Petrodollar Pact:

How Dollar Hegemony, Not Democracy or Oil, Drives America's Unconditional Protection of Saudi Arabia

Abstract

The United States has, for decades, extended extraordinary military and diplomatic protection to the Kingdom of Saudi Arabia, deploying its forces in the kingdom's defence, sustaining arms transfers during the Yemen crisis, and withholding sanctions following the September 11 attacks despite the Saudi nationality of 15 of the 19 hijackers. Mainstream international relations scholarship attributes this relationship to oil dependency and regional stability imperatives. This article challenges that explanation as analytically insufficient. Drawing on structural analysis, Kautilyan statecraft theory, and monetary economics, it argues that the true and primary driver of American protection is the petrodollar architecture, a financial arrangement born from the collapse of the Bretton Woods system in 1971 and formalised through Nixon-era diplomacy with Riyadh, which requires global oil trade to be conducted exclusively in U.S. dollars, thereby sustaining American monetary hegemony. Through structured comparative analysis of U.S. responses to Saudi Arabia, Iran, Venezuela, Russia, and the European Union, the article demonstrates that American foreign policy in the Gulf is best explained not by liberal or realist IR theories alone, but by structural analysis of monetary power. The article further considers whether accelerating BRICS de-dollarisation and yuan-denominated oil trades signal the beginning of the petrodollar's end and what that portends for U.S. global primacy and India's strategic positioning.

Keywords: Petrodollar, Dollar Hegemony, Nixon Shock, Kautilyan Statecraft, De-dollarisation

I. Introduction

The alliance between the United States and Saudi Arabia has long resisted conventional explanation. On the surface, it appears paradoxical. The United States presents itself as the world's foremost champion of liberal democracy, human rights, and the rules-based international order.

Saudi Arabia, by contrast, is an absolute monarchy that suppresses political dissent, criminalises apostasy and homosexuality, and has been credibly linked by U.S. government intelligence assessments to the financing of Islamist extremism.[1]

Yet the United States has repeatedly and consistently extended protection to Saudi Arabia that it has refused to any comparable state. In 1990, when Saddam Hussein's Iraqi forces threatened Saudi territory, the United States deployed nearly half a million American soldiers to defend the desert kingdom, the largest overseas military deployment since Vietnam, at enormous financial and human cost, and under no formal treaty obligation whatsoever. The contrast with Washington's approach to other regional crises is immediate and damning.

The paradox deepens in the aftermath of the September 11, 2001, attacks. Fifteen of the nineteen hijackers were Saudi citizens. The mastermind, Osama bin Laden, was a Saudi national. Al-Qaeda's funding networks had documented links to Saudi financial institutions, and the 28 classified pages of the **Joint Congressional Inquiry into Intelligence Community Activities** (2002), declassified in 2016, suggested possible connections between hijackers and elements within the Saudi government itself.[2] And yet the United States did not sanction Saudi Arabia, did not sever diplomatic ties, and did not launch military operations against Riyadh. Instead, it invaded Afghanistan and Iraq, while U.S.-Saudi commercial, military, and diplomatic relations continued with equanimity.

The contrast with other episodes of American foreign policy is stark. When Russia invaded Ukraine in February 2022, the United States led a sweeping multilateral sanctions campaign: freezing over $300 billion in Russian sovereign wealth, expelling Russian banks from the SWIFT payment system, and imposing export controls designed to deny Russia access to critical technologies.[3] When Saudi Arabia launched a devastating military campaign in Yemen, one that the United Nations described as causing one of the world's worst humanitarian crises, with

[1]THE NAT'L COMM'N ON TERRORIST ATTACKS UPON THE U.S., THE 9/11 COMMISSION REPORT 160-161 (W.W. Norton & Co. 2004).
[2]S. REP. NO. 107-351/H.R. REP. NO. 107-792, JOINT INQUIRY INTO INTELLIGENCE COMMUNITY ACTIVITIES BEFORE AND AFTER THE TERRORIST ATTACKS OF SEPTEMBER 11, 2001, at 415-432 (2002) (declassified 2016).
[3]GREG KENNEDY, ECONOMIC WARFARE IN THE 21ST CENTURY 6 (Springer 2025).

estimates of over 377,000 deaths attributable to the conflict,[4] the American response was categorically different. Rather than sanctions, the United States continued supplying Saudi Arabia with weapons, providing intelligence, and refuelling Saudi fighter jets conducting bombing operations.

The standard explanations offered in mainstream IR literature are insufficient. The 'oil dependency' thesis that American protection of Saudi Arabia derives from petroleum dependency falters on several grounds: the United States has become a net energy exporter since 2019; oil is a globally traded fungible commodity; and other oil-rich nations, Iran, Venezuela, Libya, and Iraq, have received no comparable American protection despite possessing vast petroleum reserves.[5] The 'regional stability' argument is similarly incomplete: American foreign policy has repeatedly destabilised the very region it claims to stabilise, through interventions in Iraq, Libya, and Syria.

This article advances a different argument: the United States protects Saudi Arabia because Saudi Arabia is the structural foundation of dollar hegemony. Since the Nixon Shock of 1971, when President Nixon ended the dollar's convertibility to gold, collapsing the Bretton Woods monetary system, the United States has faced the challenge of sustaining global demand for dollars without gold backing. The solution, formalised through secret agreements with Saudi Arabia between 1972 and 1974, was the petrodollar system: Saudi Arabia would price its oil exclusively in U.S. dollars and invest its dollar surpluses in U.S. Treasury bonds, in exchange for American military protection and weapons supply.[6]

This arrangement transformed Saudi Arabia from an oil supplier into the cornerstone of American monetary architecture. Because oil is the world's most traded commodity, requiring all oil purchases to be conducted in dollars creates structural global demand for the U.S. dollar, a demand that exists independently of the American economy's performance or the dollar's intrinsic value. This is the mechanism that allows the United States to run persistent trade deficits, finance its military expenditure without proportional taxation, and wield financial sanctions as instruments of

[4]U.N. DEV. PROGRAMME, YEMEN: ASSESSING THE IMPACT OF WAR ON DEVELOPMENT 3 (2021).
[5]U.S. ENERGY INFO. ADMIN., UNITED STATES BECAME A NET TOTAL ENERGY EXPORTER IN 2019 (2020), https://www.eia.gov/todayinenergy/detail.php?id=43015 (last visited Apr. 4, 2026).
[6]DAVID E. SPIRO, THE HIDDEN HAND OF AMERICAN HEGEMONY: PETRODOLLAR RECYCLING AND INTERNATIONAL MARKETS 103 (Cornell Univ. Press 1999).

foreign policy, which French Finance Minister Valéry Giscard d'Estaing famously called America's 'exorbitant privilege.'[7]

The article proceeds as follows. Section II surveys existing literature. Section III identifies the research question. Section IV states the objectives. Section V presents the hypothesis. Section VI outlines the methodology. Section VII presents the expanded comparative data analysis. Section VIII presents findings and suggestions. Section IX concludes.

II. Literature Review

2.1 Mainstream Explanations for U.S.–Saudi Relations

The academic literature on U.S.-Saudi relations has historically clustered around three frameworks: oil dependency, regional security, and democratic peace theory. Yergin's foundational account in The Prize provides the definitive history of how American strategic interests became entangled with Gulf petroleum after World War II.[8] Klare subsequently characterised American foreign policy as driven by 'resource wars' the imperative to control fossil fuel reserves.[9] More recently, Joshi has examined the specific institutional and financial mechanisms through which the United States has sustained oil trade hegemony in the Middle East, providing empirical grounding for the structural account developed in this article and reinforcing the inadequacy of purely military explanations for American regional dominance.[10]

Realist scholars, drawing on Waltz and Mearsheimer, offer a balance-of-power explanation: the United States protects Saudi Arabia as a counterweight to hostile regional powers, principally Iran and post-1990 Iraq.[1112] Baylis, Wirtz, and Gray situate this within frameworks of strategic partnership and security dialogue.[13] Liberal institutionalists, following Keohane and Nye,

[7]MICHAEL HUDSON, SUPER IMPERIALISM: THE ECONOMIC STRATEGY OF AMERICAN EMPIRE 41 (3d ed., ISLET-Verlag 2021).
[8]DAVID YERGIN, THE PRIZE: THE EPIC QUEST FOR OIL, MONEY, AND POWER 14 (Simon & Schuster 1991).
[9]MICHAEL T. KLARE, BLOOD AND OIL: THE DANGERS AND CONSEQUENCES OF AMERICA'S GROWING DEPENDENCY ON IMPORTED PETROLEUM 7 (Metropolitan Books 2004).
[10]A. Joshi, *How Has the US Maintained Hegemony in the International Oil Trade Through Its Control of the Middle East?*, 10 J. GLOBAL FAULTLINES 133, 133 (2023).
[11]KENNETH N. WALTZ, THEORY OF INTERNATIONAL POLITICS 131 (Addison-Wesley 1979).
[12]JOHN J. MEARSHEIMER, THE TRAGEDY OF GREAT POWER POLITICS 29 (W.W. Norton & Co. 2001).
[13]JOHN BAYLIS, JAMES J. WIRTZ & COLIN S. GRAY, STRATEGY IN THE CONTEMPORARY WORLD: AN INTRODUCTION TO STRATEGIC STUDIES 87 (Oxford Univ. Press 2010).

emphasise the dense web of military, financial, and diplomatic interdependencies that create mutual vulnerability and, therefore, mutual protection.[14]

2.2 Petrodollar Literature

A distinct and underappreciated body of scholarship focuses on the monetary dimensions of this relationship. Clark was among the first to systematically argue that American Middle East policy cannot be understood without reference to the petrodollar system, famously contending that the 2003 invasion of Iraq was precipitated not by WMD concerns but by Saddam Hussein's 2000 decision to price Iraqi oil in euros.[15]

Hudson, in Super Imperialism, extends this argument, contending that the dollar's reserve currency status sustained partly through the petrodollar architecture constitutes a form of financial imperialism that extracts resources from the global economy through monetary rather than military means.[16] Spiro's meticulous archival research in The Hidden Hand of American Hegemony provides the most detailed account of the 1974 U.S.-Saudi petrodollar recycling agreement, demonstrating that the arrangement was deliberately kept secret, with Saudi Arabia given a privileged bilateral channel to purchase U.S. Treasury bonds outside the normal auction process.[17] Salameh's subsequent analysis of whether the petrodollar retains structural viability in a multipolar order raises the central empirical question that animates this article's comparative analysis, namely whether the monetary architecture constructed in 1974 can survive the simultaneous pressures of BRICS de-dollarisation and the decline of American unipolarity.[18]

2.3 Structural and Constructivist Perspectives

From a structuralist perspective, Wallerstein's world-systems theory situates petrodollar arrangements within core-periphery relations, where financial architecture perpetuates hierarchical

[14]ROBERT O. KEOHANE & JOSEPH S. NYE, POWER AND INTERDEPENDENCE: WORLD POLITICS IN TRANSITION 24 (Little, Brown 1977).
[15]WILLIAM R. CLARK, PETRODOLLAR WARFARE: OIL, IRAQ AND THE FUTURE OF THE DOLLAR 3 (New Society Publishers 2005).
[16]Hudson, *supra* note 7, at 41.
[17]Spiro, *supra* note 6, at 103.
[18]M.G. Salameh, *Has the Petrodollar Had Its Day?* 3 (SSRN Working Paper No. 2621599, 2015), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2621599 (last visited Apr. 4, 2026).

relationships between developed and developing economies.[19] The petrodollar system, in this reading, is a structural feature of the capitalist world-system, not merely a bilateral diplomatic agreement.

Constructivist accounts complement this analysis. Wendt's argument that 'anarchy is what states make of it' invites examination of how dollar supremacy has been socially constructed and institutionally reinforced through decades of diplomatic practice and multilateral norm-setting through the IMF, World Bank, and the SWIFT payment infrastructure.[20]

2.4 Kautilyan Perspectives on Grand Strategy

The application of Kautilyan thought to contemporary U.S. foreign policy is useful but underexplored. Rangarajan's translation and analysis of the Arthashastra identify the Saptanga model encompassing swami (ruler), amatya (ministers), janapada (territory), durga (fortifications), kosha (treasury), danda (military), and mitra (allies) as a comprehensive framework for state power.[21] Applied here, Saudi Arabia is not merely an American ally, it is the structural **mitra** whose dollar compliance constitutes the foundation of American **kosha** within the Saptanga framework: the treasury and financial capacity of the state. Boesche notes that Kautilya's strategic thought recognises that economic power precedes and enables military power, a perspective that mainstream Western IR theory, with its emphasis on military capabilities, systematically underweights.[22]

2.5 Gaps in the Literature

Despite this scholarship, significant gaps remain. First, the intersection of petrodollar analysis with international legal frameworks, including UN Charter norms and international humanitarian law, is underdeveloped. Second, existing literature rarely integrates the historical origins of the petrodollar with its contemporary challenges into a single comparative analytical framework. Third, the implications of BRICS de-dollarisation and yuan-denominated oil trades for the strategic

[19]IMMANUEL WALLERSTEIN, THE MODERN WORLD-SYSTEM I: CAPITALIST AGRICULTURE AND THE ORIGINS OF THE EUROPEAN WORLD-ECONOMY IN THE SIXTEENTH CENTURY 349 (Academic Press 1974).
[20]ALEXANDER WENDT, SOCIAL THEORY OF INTERNATIONAL POLITICS 92 (Cambridge Univ. Press 1999).
[21]L.N. RANGARAJAN, KAUTILYA: THE ARTHASHASTRA 141 (Penguin Books India 1992).
[22]ROGER BOESCHE, THE FIRST GREAT POLITICAL REALIST: KAUTILYA AND HIS ARTHASHASTRA 67 (Lexington Books 2002).

rationale of U.S.-Saudi relations have not been systematically examined through a structured comparative case method. This article addresses these gaps.

III. Research Question

Does the petrodollar architecture, the structural arrangement whereby global oil trade is conducted in U.S. dollars, sustained through the U.S.-Saudi diplomatic compact of 1974, constitute the primary determinant of American foreign policy toward Saudi Arabia, superseding conventional explanations based on oil dependency, regional security interests, or democratic alignment? And if so, what are the implications of this structural dependency for international legal norms, the future of U.S. hegemony, and the global monetary order?

IV. Research Objectives

This article pursues four primary objectives:

- To trace the historical origins of the petrodollar system from the Nixon Shock (1971) to the U.S.-Saudi Treasury Agreement (1974) and examine its structural role in sustaining dollar hegemony.
- To demonstrate, through structured comparative case analysis, that U.S. policy toward Saudi Arabia is best explained by the petrodollar thesis rather than by oil dependency, regional security, or democratic peace theory.
- To apply Kautilyan and Structuralist analytical frameworks to explain why the petrodollar arrangement constitutes a structural constraint on U.S. foreign policy rather than a freely chosen strategic preference.
- To assess the implications of BRICS de-dollarisation and yuan-denominated oil trade for the petrodollar system and, by extension, for U.S. grand strategy and global monetary governance, with specific reference to India’s strategic positioning.

V. Hypothesis

The petrodollar system, not oil dependency, regional security considerations, or ideological alignment, is the primary structural determinant of America’s unconditional protection of Saudi Arabia. As long as the petrodollar architecture remains intact, the United States will continue

extending this protection regardless of Saudi Arabia's domestic governance record or violations of international humanitarian law.

VI. Methodology and Data Collection

Research Approach: Qualitative

This article employs a qualitative research methodology, drawing on doctrinal analysis, a structured comparative case study, and secondary source analysis. A qualitative approach is appropriate given that the core analytical task of establishing causal relationships between monetary architecture and foreign policy decisions requires interpretive historical analysis rather than statistical modelling.[23]

6.1 Comparative Case Study Method

The article uses structured, focused comparison across five cases: (i) U.S.-Saudi Arabia, the protected partner; (ii) U.S.-Iran, post-1979 oil-rich, dollar-defiant, sanctioned; (iii) U.S.-Venezuela post-2000 oil-rich, dollar-challenging, isolated; (iv) U.S.-Russia post-2022 SWIFT expelled, dollar weaponised against; and (v) U.S.-EU/Germany dollar-aligned, institutionally incorporated. These cases are selected because all involve states with either significant hydrocarbon resources or major reserve currency relationships, allowing oil dependency and geopolitical alliance to be controlled for as explanatory variables. The divergent U.S. responses across these cases are used to isolate the petrodollar variable as the differentiating factor.

6.2 Data Sources

Primary sources include government documents such as the U.S.-Saudi Joint Commission on Economic Cooperation records as documented by Spiro, the UNDP Yemen report, EIA energy data, the Joint Congressional Inquiry (2002), and the IMF COFER database, including data on global dollar reserve holdings. Secondary sources include peer-reviewed articles from Strategic Analysis (IDSA), the Journal of Strategic Studies, Survival, Defence Studies, and Asian Security, all recognised peer-reviewed journals in the field of strategic studies, as well as the scholarly monographs cited in the literature review above.

[23]BARRY BUZAN, AN INTRODUCTION TO STRATEGIC STUDIES: MILITARY TECHNOLOGY AND INTERNATIONAL RELATIONS 55 (Palgrave Macmillan 1987).

6.3 Analytical Framework

The article applies a dual analytical lens: Kautilyan Saptanga theory to explain the structural role of Saudi Arabia in American kosha (treasury power), and Wallerstein's world-systems structuralism to situate the petrodollar arrangement within the broader architecture of global monetary hierarchy.[24]

VII. Data Analysis

7.1 The Nixon Shock and the Genesis of the Petrodollar (1971–1974)

On 15 August 1971, President Richard Nixon announced the unilateral suspension of the U.S. dollar's convertibility into gold, an event economists term the 'Nixon Shock.' This decision effectively ended the Bretton Woods monetary order, under which global currencies had been pegged to the dollar at the fixed conversion rate of $35 per troy ounce of gold established at the 1944 Bretton Woods Conference. Nixon's decision was driven by a balance-of-payments crisis: the United States was running trade deficits, spending heavily on the Vietnam War, and could no longer maintain gold reserves sufficient to back the volume of dollars in global circulation.[25]

The collapse of Bretton Woods created an immediate and existential question: if the dollar was no longer backed by gold, what would sustain global demand for it? Without structural demand for dollars, the United States would lose its ability to finance government expenditure by issuing currency absorbed by foreign central banks, and the 'exorbitant privilege' of running perpetual deficits without facing balance-of-payments discipline would evaporate. The answer was engineered between 1972 and 1974 through a series of secret bilateral negotiations between U.S. Treasury Secretary William Simon, Under-Secretary Jack Bennett, and Saudi Arabian officials. The outcome, formalised in the U.S.-Saudi Joint Commission on Economic Cooperation of June 1974, was the petrodollar arrangement: Saudi Arabia agreed to price its oil exclusively in U.S. dollars and to recycle its resulting petrodollar surpluses into U.S. Treasury bonds through a confidential bilateral channel outside the normal auction process.[26]

[24]Rangarajan, *supra* note 21, at 149.
[25]Clark, *supra* note 15, at 3.
[26]Spiro, *supra* note 6, at 103.

What made this arrangement so effective, from the American perspective, was its self-reinforcing global character. Because Saudi Arabia was the dominant swing producer of the Organization of Petroleum Exporting Countries (OPEC), other OPEC members followed Riyadh's lead in pricing oil in dollars. Because oil is the world's single most traded commodity, the input on which all industrial economies depend, a requirement that it be purchased in dollars created permanent, inelastic, structural global demand for U.S. currency. Every country in the world, regardless of its political alignment with Washington, had to maintain dollar reserves simply to buy the energy necessary to keep its economy functioning. This was the mechanism that replaced gold as the foundation of dollar value.[27]

7.2 Case I Saudi Arabia: The Protected Pillar

The petrodollar thesis generates a clear and falsifiable prediction: the United States will protect Saudi Arabia unconditionally and consistently, not because of oil dependency, ideological alignment, or democratic solidarity, but because Saudi Arabia is the keystone of the petrodollar architecture. The empirical record strongly confirms this prediction.[28]

In August 1990, when Iraqi forces under Saddam Hussein invaded Kuwait and massed on Saudi Arabia's northern border, the United States responded with Operation Desert Shield, deploying 500,000 troops to the Arabian Peninsula. This was not an action mandated by any formal treaty. The United States had no NATO-equivalent obligation to Saudi Arabia. The justification offered publicly emphasised oil supply security, but this is inadequate: Kuwait's oil had already been seized by Iraq and was unavailable to global markets. The real stakes were the integrity of the petrodollar agreement itself. A Saudi Arabia under Iraqi dominance or intimidation could not be relied upon to maintain the exclusive dollar pricing of OPEC oil. The deployment was, in structural terms, a military operation to defend the monetary architecture.

Following September 11, 2001, the United States faced the clearest test of whether its foreign policy was driven by security logic or petrodollar logic. By every security-driven calculus, Saudi Arabia should have faced severe consequences. Instead, the U.S. invaded Afghanistan and Iraq, neither of which had meaningful roles in the attacks, while maintaining virtually unaltered

[27]Spiro, *supra* note 6, at 108-112.
[28]Baylis, Wirtz & Gray, *supra* note 13, at 87.

relations with Riyadh. The petrodollar logic is explanatory: sanctioning Saudi Arabia would have destabilised the petrodollar agreement and risked Saudi Arabia diversifying its oil pricing into euros, a prospect that would have posed an existential threat to dollar hegemony.[29]

During the Yemen conflict (2015–present), the United States continued to supply Saudi Arabia with advanced weapons systems, including precision-guided munitions, maintained intelligence-sharing arrangements, and initially continued mid-air refuelling support. This conduct occurred while the UN Security Council, international humanitarian organisations, and multiple U.S. senators documented systematic attacks on civilian infrastructure. The contrast with U.S. responses to Russia's Ukraine campaign, maximum financial and diplomatic pressure, is explicable only through the petrodollar lens: Russia was actively developing alternative payment systems, challenging dollar primacy, whereas Saudi Arabia remained the anchor of the dollar-denominated oil trade.

7.3 Case II Iran: Oil Without Dollar Compliance

The Islamic Republic of Iran provides the most instructive counter-case. Iran possesses the world's fourth-largest proven oil reserves and the second-largest natural gas reserves. By the oil dependency thesis, Iran should enjoy American protection comparable to Saudi Arabia's. The opposite has been true. Since the 1979 Islamic Revolution, the United States has imposed progressively escalating sanctions on Iran, including the comprehensive OFAC sanctions regime, the Iran and Libya Sanctions Act (1996)[30], and the Joint Comprehensive Plan of Action's collapse following the American withdrawal in 2018.[31]

The critical differentiating variable is Iran's relationship with the petrodollar. Iran has persistently sought to price its oil in non-dollar currencies, most notably in euros and, in recent years, in yuan and roubles through bilateral barter-style arrangements with China, India, and Russia. Iran's oil export infrastructure has been deliberately structured to circumvent SWIFT and dollar settlement mechanisms. From the petrodollar thesis perspective, Iran represents precisely the threat the system was designed to prevent: a major oil producer that demonstrates that oil can be traded outside the dollar framework. American sanctions against Iran are not merely geopolitical; they

[29]Clark, *supra* note 15, at 27.
[30]Iran and Libya Sanctions Act of 1996, Pub. L. No. 104-172, 110 Stat. 1541.
[31]Hudson, *supra* note 7, at 88.

are structurally necessary to prevent Iran from establishing a functioning precedent for non-dollar oil trade that other producers might emulate.

7.4 Case III Venezuela: The Petro Challenge

Venezuela's trajectory offers a parallel lesson. Venezuela possesses the world's largest proven oil reserves exceeding even Saudi Arabia's. Under Hugo Chávez, Venezuela began openly challenging the petrodollar system: proposing an oil-for-goods barter system with Caribbean and Latin American states (Petrocaribe), advocating within OPEC for pricing oil in a basket of currencies, and establishing a regional currency (the Sucre) explicitly designed to reduce dollar dependency in hemispheric trade.[32]

The American response escalated in direct proportion to Venezuela's dollar defiance. The U.S. imposed targeted sanctions beginning in 2015, escalating to comprehensive sectoral sanctions under Executive Order 13808 (2017)[33] and a near-total embargo on Venezuelan oil transactions in 2019. American officials openly discussed the desirability of regime change. The Maduro government has been subjected to asset freezes, SWIFT restrictions, and the seizure of Venezuelan gold reserves held in the Bank of England[34] at American urging. Venezuela's oil wealth, which should have made it a candidate for American protection under the oil dependency thesis, instead made it a target, precisely because it was being mobilised to challenge dollar hegemony.

7.5 Case IV Russia: SWIFT as a Weapon

The American response to Russia's February 2022 invasion of Ukraine was the most far-reaching deployment of dollar-based financial power yet attempted. Within days of the invasion, the United States and its allies froze approximately $300 billion in Russian central bank foreign exchange reserves held in Western financial institutions, removed seven Russian banks from the SWIFT international payment network, imposed export controls on semiconductor and dual-use

[32]VITOR BENTO, STRATEGIC AUTONOMY AND ECONOMIC POWER: THE ECONOMY AS A STRATEGIC THEATER 19 (Routledge 2024).
[33]Exec. Order No. 13,808, 82 Fed. Reg. 41,155 (Aug. 24, 2017).
[34]Andrew England & Colby Smith, **Bank of England Refuses to Hand Over Venezuelan Gold to Maduro**, FIN. TIMES (Jan. 25, 2019), https://www.ft.com/content/b0740b1e-204b-11e9-b126-46fc3ad87c65 (last visited Apr. 4, 2026).

technology exports to Russia, and sanctioned the personal assets of Russian oligarchs and government officials.[35]

The severity of this response is explicable, in significant part, through the petrodollar lens. Russia had, since at least 2014, been systematically developing alternatives to dollar-denominated trade: the System for Transfer of Financial Messages (SPFS), a domestic SWIFT alternative; bilateral rouble-yuan trade arrangements with China; and active advocacy within BRICS for a de-dollarised multilateral payment architecture. Russia had also, critically, been settling oil and gas contracts with China in yuan rather than dollars, a direct threat to the petrodollar norm. The U.S. response to the Ukraine invasion was not merely a response to military aggression; it was also an opportunity to demonstrate the costs of dollar defiance to any state considering similar moves.[36]

7.6 Case V The European Union and Germany: Dollar Alignment and INSTEX

The European case is instructive for what it reveals about the boundaries of even allied resistance to dollar hegemony. Following the U.S. withdrawal from the Iran nuclear deal in 2018, European Union member states, including Germany, France, and the United Kingdom, attempted to establish the Instrument in Support of Trade Exchanges (INSTEX), a special purpose vehicle designed to facilitate non-dollar, non-SWIFT trade with Iran in humanitarian goods, bypassing American sanctions.[37]

The experiment largely failed. European banks and corporations, deeply integrated into dollar-denominated global financial markets and unwilling to risk U.S. secondary sanctions, declined to use INSTEX in meaningful volumes. INSTEX processed only a handful of transactions[38] before effectively becoming dormant. The episode demonstrates the structural depth of dollar hegemony: even the world's largest trading bloc, with significant geopolitical motivation to resist American financial unilateralism, found itself unable to operationalise an alternative to dollar settlement without incurring costs its private sector was unwilling to bear. The petrodollar system's power

[35]Kennedy, *supra* note 3, at 6.
[36]HÅKAN EDSTRÖM & JACOB WESTBERG, MILITARY STRATEGY OF GREAT POWERS: MANAGING POWER ASYMMETRY AND STRUCTURAL CHANGE IN THE 21ST CENTURY 77 (Routledge 2022).
[37]ANASTASIA SHESTERININA & MIRIAM MATEJOVA EDS., UNCERTAINTY IN GLOBAL POLITICS 212 (Routledge 2024).
[38]European External Action Service, *Statement by the Participants of the Instrument in Support of Trade Exchanges (INSTEX)*, EUR. EXTERNAL ACTION SERV. (Mar. 31, 2020), https://www.eeas.europa.eu/eeas/statement-participants-instrument-support-trade-exchanges-instex_en (last visited Apr. 4, 2026).

lies not only in formal agreements but in the dense network of institutional dependencies, correspondent banking relationships, dollar-denominated debt issuance, and reserve accumulation patterns that make exit prohibitively costly for any individual actor, even a major one.

7.7 De-dollarisation Trends and the Petrodollar's Future

Despite the structural resilience demonstrated by the INSTEX case, the petrodollar architecture faces growing stress. IMF COFER data shows the dollar's share of global official foreign exchange reserves has declined from approximately 73% in 2001 to approximately 58% in 2024, the lowest level since records began, representing a structural erosion rather than a cyclical fluctuation.[39] An empirical survey of OAPEC member states corroborates this structural shift, finding that de-dollarisation sentiment among oil-producing nations has gained significant institutional momentum since the 2022 weaponisation of SWIFT against Russia, with a majority of surveyed states actively exploring non-dollar settlement mechanisms for intra-regional energy trade.[40]

Most significant for the petrodollar, Saudi Arabia has, since 2023, been conducting a portion of its oil sales to China in yuan through the Shanghai Petroleum and Natural Gas Exchange.[41] This development, however, limited in current volume represents a qualitative break from the 1974 arrangement: for the first time, the anchor state of the petrodollar system is accepting non-dollar payment for oil. India has simultaneously expanded rupee-denominated oil purchase arrangements with both Russia and the UAE.[42] From a Kautilyan perspective, these developments represent a structural weakening of the American kosha (treasury power), as the monetary mechanism that sustains dollar demand is being incrementally eroded.[43]

The consequences would be serious. If Saudi Arabia were to formally and comprehensively shift to multi-currency oil pricing, accepting yuan, euros, and rupees alongside dollars, the structural

[39]INT'L MONETARY FUND, CURRENCY COMPOSITION OF OFFICIAL FOREIGN EXCHANGE RESERVES (COFER) (2024), https://data.imf.org/?sk=E6A5F467-C14B-4AA8-9F6D-5A09EC4E62A4 (last visited Apr. 4, 2026).
[40]O. Wagdi, A. Elnahrawy & A.F. Habib, *Petrodollar and De-Dollarization: A Survey from OAPEC Countries* 5 (SSRN Working Paper No. 4635272, 2023), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4635272 (last visited Apr. 4, 2026).
[41]Elaine He, Tom Wilson & Arash Massoudi, **Saudi Arabia Considers Accepting Yuan Instead of Dollars for Chinese Oil Sales**, WALL ST. J. (Mar. 15, 2023), https://www.wsj.com/articles/saudi-arabia-china-yuan-oil-trade-11678888909 (last visited Apr. 4, 2026).
[42]Bento, *supra* note 32, at 34.
[43]Rangarajan, *supra* note 21, at 149.

basis of American dollar hegemony would be fundamentally undermined. The United States would lose the 'exorbitant privilege' of deficit financing, face higher borrowing costs, and see its capacity to impose financial sanctions dramatically reduced. This is why, from the petrodollar perspective, any diplomatic friction between Washington and Riyadh is resolved overwhelmingly in Saudi Arabia's favour: the cost of losing the petrodollar anchor is existential for American monetary primacy.[44]

VIII. Findings and Suggestions

8.1 Key Findings

- The petrodollar system, not oil dependency or regional security, is the primary structural determinant of U.S. protection of Saudi Arabia. This is confirmed by the consistent pattern of divergent U.S. treatment of oil-rich states based on their dollar compliance rather than their oil production volumes or human rights records.
- The structured comparative analysis across five cases, Saudi Arabia, Iran, Venezuela, Russia, and the EU, demonstrates that the petrodollar variable consistently predicts U.S. foreign policy behaviour, where oil dependency and security variables produce incorrect predictions.
- The ongoing de-dollarisation trend, particularly Saudi Arabia's yuan oil trades with China, represents the most significant structural threat to U.S. hegemony since the Cold War, more consequential than Russian military power or Chinese manufacturing dominance.
- Existing international legal frameworks, including UN Charter norms on sovereign equality and IHL prohibitions on targeting civilian infrastructure, are selectively applied by the United States in direct proportion to the petrodollar interests of the states involved. This represents a structural accountability gap in the international legal order.

8.2 Policy Suggestions

- India should strategically exploit the de-dollarisation window by expanding rupee-denominated oil trade arrangements with Saudi Arabia, Russia, and the UAE

[44]Baylis, Wirtz & Gray, *supra* note 13, at 193.

simultaneously, positioning itself as a pivot state in the emerging multipolar monetary order rather than a passive beneficiary of BRICS initiatives.

- International legal scholarship, particularly within law school curricula engaging with defence and strategic studies, should more systematically examine the relationship between monetary architecture and selective compliance with IHL, developing accountability frameworks that account for structural power asymmetries.
- BRICS member states should prioritise the development of an alternative cross-border payment infrastructure to reduce vulnerability to U.S. financial sanctions and reduce structural dependence on the petrodollar system, drawing lessons from the INSTEX failure regarding the importance of private sector incentive alignment.

IX. Conclusion

This article has argued that the most compelling explanation for America's unconditional protection of Saudi Arabia is the petrodollar architecture. Since 1974, Saudi Arabia has served as the structural pillar of dollar hegemony, converting the world's most traded commodity into a permanent engine of global dollar demand. This arrangement gives the United States its exorbitant privilege, the ability to finance military expenditure, run trade deficits, and wield financial sanctions as foreign policy instruments, all underwritten by the structural necessity of conducting global oil trade in U.S. dollars.[45]

The structured comparative analysis across five cases confirms the hypothesis. Iran and Venezuela, oil-rich but dollar-defiant, have faced relentless American pressure. Russia, actively building a dollar-alternative payment infrastructure, faced the most sweeping financial sanctions in history. The European Union, despite strong motivation to resist American financial unilateralism, found itself structurally incapable of operationalising an alternative. Saudi Arabia, alone the anchor of the petrodollar system has received unconditional American protection regardless of its conduct.[46]

From a Kautilyan perspective, Saudi Arabia is not merely an American ally, it is the structural **mitra** whose dollar compliance sustains American **kosha** within the Saptanga framework. From a

[45]Hudson, *supra* note 7, at 41.
[46]COLUMBA PEOPLES & NICK VAUGHAN-WILLIAMS, CRITICAL SECURITY STUDIES 88 (Routledge 2012).

structuralist perspective, the petrodollar system is not a policy choice but a structural constraint: American policymakers cannot abandon Saudi Arabia any more than they can abandon the dollar itself.[47]

The most important implication of this analysis is prospective. As BRICS de-dollarisation accelerates and Saudi Arabia begins diversifying its monetary relationships through yuan-denominated oil trades with China and rupee arrangements with India, the structural basis of the U.S.-Saudi compact is being incrementally eroded. When the petrodollar ends, American unipolarity ends with it. Understanding this connection is not merely an academic exercise; it is essential for any state, particularly India, that seeks to navigate the transition to a multipolar monetary and strategic order with strategic clarity.

X. Limitations

This article acknowledges several limitations. First, the 1974 U.S.-Saudi petrodollar agreements remain partially classified; the analysis relies on declassified portions and secondary accounts, which may be incomplete. Second, the qualitative methodology does not permit precise quantification of the relative weight of the petrodollar variable versus other explanatory factors. Third, the article treats Saudi Arabia primarily as a structural pillar rather than an independent strategic actor with its own evolving calculations, a limitation that future research should address. Fourth, the de-dollarisation data, while directionally consistent, may reflect cyclical portfolio rebalancing rather than structural monetary transition.

[47]Rangarajan, *supra* note 21, at 141.